

AR55

Annual Report 1995-1996

*CMC*  
CANADIAN MARCONI  
COMPANY



## Table of Contents

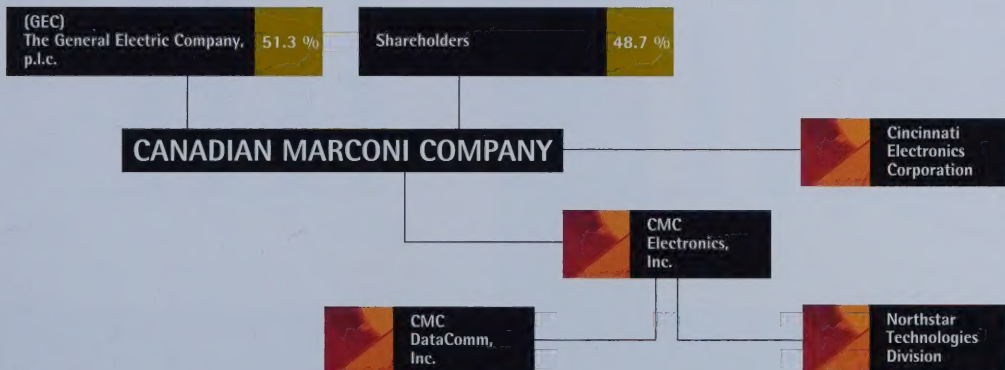
Financial Highlights	2
Report to Shareholders	4
Canadian Marconi at a Glance	8
Aerospace	10
Customer Support	14
Communications	15
Electronic Components	18
Surface Transportation Electronics	19
Management's Discussion and Analysis	20
Consolidated Financial Statements	26
Corporate Information	33

## Canadian Marconi Company

Canadian Marconi Company (CMC) is a recognized world leader in the design, manufacture and sale of high-technology electronic products for the aerospace, communications and surface transportation fields.

CMC is a publicly held Canadian corporation, with The General Electric Company, p.l.c., (GEC) of the United Kingdom holding 51.3 per cent. of outstanding shares. Canadian Marconi shares are traded on the Montreal, Toronto and American stock exchanges.

The Company's corporate headquarters and principal design and manufacturing facility is located in Ville Saint-Laurent, Quebec. CMC operates a facility in Kanata, Ontario, as well as sales and service offices across Canada. The Company's capabilities in product development, sales and systems support are broadened by its U.S. subsidiaries, Cincinnati Electronics Corporation of Mason, Ohio; Northstar Technologies, a division of CMC Electronics, Inc., of Acton, Massachusetts; and CMC DataComm, Inc. of Reston, Virginia. A network of CMC sales and service agents and representatives complements its support activities world-wide.



### The Annual General Meeting of Shareholders will be held at:

Canadian Marconi Company

600 Dr. Frederik Philips Boulevard

Ville Saint-Laurent, Quebec H4M 2S9

on Thursday, August 15, 1996

at 11 o'clock

To obtain a copy of the Annual Information Form, please send your request to the Secretary-Treasurer of the Company.

Pour obtenir une copie française de ce rapport annuel, prière d'adresser votre demande au bureau de la secrétaire-trésorière de la Société.



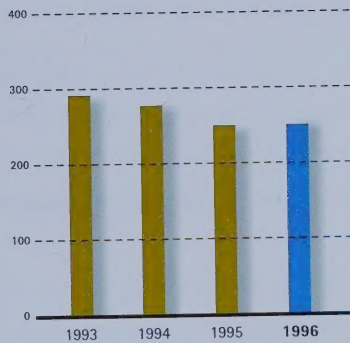
## Financial Highlights

Year ended March 31

	1996	1995	1994	1993
(in thousands of dollars except as otherwise stated)				
Revenues	\$ 251,489	\$ 250,353	\$ 289,835	\$ 294,069
Net income	9,100	4,695	29,519	23,971
Dividends	—	5,053	6,669	6,657
Shareholders' equity	350,349	343,135	342,406	311,507
Working capital	281,402	260,039	272,852	258,148
Number of shares (in thousands)	23,938	23,938	23,912	23,779
Per share data (in dollars)				
Net income	0.38	0.20	1.23	1.01
Dividends	—	0.21	0.28	0.28
Shareholders' equity	14.64	14.33	14.32	13.10

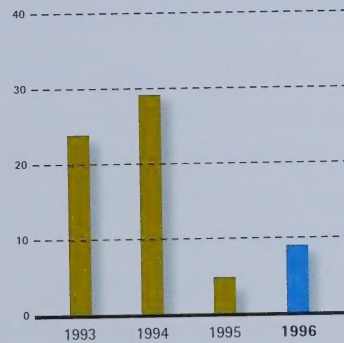
## Revenues

(in millions of dollars)



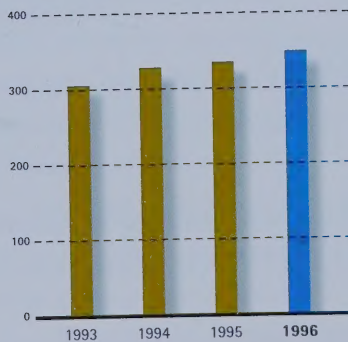
## Net Income

(in millions of dollars)



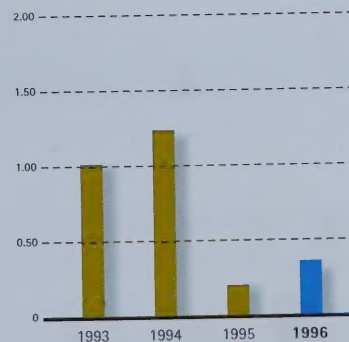
## Shareholders' Equity

(in millions of dollars)



## Earnings per Share

(in dollars)



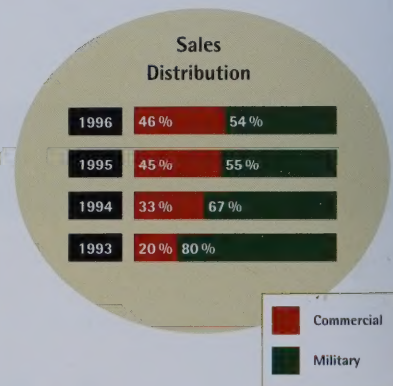
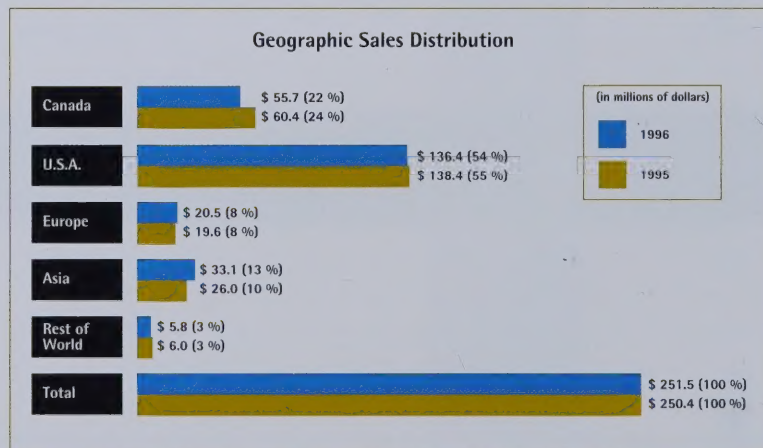


# Report to Shareholders

## Fiscal 1996 Performance

The year ended March 31, 1996, has been a year of change at Canadian Marconi Company (CMC). With the appointment of President and Chief Executive Officer, Carmen L. Lloyd in October 1995, a new direction has been established to develop and leverage the Company's strengths. Canadian Marconi has a respected reputation earned through decades of delivering high-quality and reliable products and services to an international customer base.

Revenues totalled \$251 million compared to \$250 million in the previous year. Reductions in defence spending in North America and delayed programs elsewhere have reduced military product sales. In the year under review, defence sales accounted for 54 per cent. of consolidated sales. Commercial revenues increased some four per cent. over last year, attributable to increased sales of global positioning system (GPS) sensors and continued success in selling enhanced facsimile switching systems to new customers in South America and Asia.



Interest income on short-term investments benefitted from higher interest rates earned on increased cash balances, recording a \$2.9 million increase from the previous year. An unrealized foreign exchange loss of \$2.7 million was recorded for the year ended March 31, 1996, compared to a \$1.1 million gain last year.

Net income for the year was \$9.1 million, compared with \$4.7 million in the prior year. Earnings per share increased to \$0.38 per share from \$0.20 in the previous year. The Directors declared a dividend of \$0.07 per share payable July 3, 1996, to shareholders of record June 11, 1996.

At March 31, 1996, order backlog was \$180 million, compared to \$206 million at the end of the previous fiscal year. Cash and short-term investments increased to \$226 million, compared to \$208 million the previous year.

Consolidation of production at CMC's facilities in Ville Saint-Laurent, Quebec, and Kanata, Ontario, was completed subsequent to the sale of the Cornwall, Ontario, facility.

A satisfactory settlement was reached with respect to the termination of the microwave landing system (MLS) contracts between the Government of Canada and Micronav International Inc., a company in which CMC has a 50 per cent. interest.

Preparation of the Trenton Avenue property for residential construction commenced during the fiscal year, further to an agreement to sell the site of CMC's former Montreal facility. A site redevelopment plan was submitted by the developer to the two municipalities which must approve the plan and zoning changes prior to final sale of the property. The approvals are expected in the autumn of 1996.

The Company is aligned with the Guidelines of Corporate Governance adopted by the Toronto and Montreal stock exchanges. The Nominating and Corporate Governance Committee was established with the mandate to oversee and monitor compliance with the guidelines.

## Strategy for Growth

CMC is committed to understanding the needs and expectations of its customers and to providing them with products and services that meet or exceed all of their requirements. To ensure continued prosperity, Canadian Marconi has developed a two-pronged strategy for future growth in both commercial and military markets.

The first element of this strategy is to exploit the Company's pre-eminence in specific technologies by consolidating its position as market leader in specific niche markets to maintain and improve sales. This approach is exemplified by CMC's global positioning system (GPS) products and satellite communications (Satcom) antenna, which have secured more than 50 per cent. of the world-wide airline market. CMC is exploiting its GPS and Satcom technologies to develop products for the surface transportation and general aviation markets. In the area of military communications, the new AN/GRC-512(V) radio development ensued from the success of the Company's AN/GRC-103 radio in international markets.

Technological strength is complemented by market position: the Company's antenna signal processor (ASP), derived from technology used in military applications, is currently being marketed in countries where entree has been provided by CMC's enhanced facsimile switching systems, which have a 34 per cent. market share and a customer base that includes 33 major telecommunications service providers.

The second element of the strategy for growth involves the formation of partnerships with key manufacturers and service providers who are dominant in target markets for CMC's products. Local partnerships are critical to success in the Far East. Several partnerships are in negotiation at this time.

The Company intends to use its cash resources to achieve this growth strategy once profitability returns to acceptable levels.



## Directors and Management

CMC is building a senior management team that is dedicated to the critical task of enhancing efficiency and improving performance. Changes in the organization are an essential step in allowing the Company's strategy for growth to be fulfilled.

Carmen L. Lloyd was appointed President and Chief Executive Officer of the Company in October 1995. Mr. Lloyd brings extensive experience in commercial and defence markets in both the aerospace and electrical equipment sectors. He was Vice President, Marketing and Customer Support, at Pratt & Whitney, Canada Inc. for the prior six years. He had been Vice President and General Manager, Construction and Industrial Products Division, of Westinghouse Canada Inc., where he started his career in 1971.

Dr. James Soos, who was interim President and Chief Executive Officer of CMC for a period of six months, and prior to that Chairman, President and Chief Executive Officer of Cincinnati Electronics Corporation since December 1988, resigned from the Company in October 1995. Your Board wishes to record its appreciation for his services.

Gregory A. Yeldon was appointed Vice President and Chief Financial Officer of the Company in July 1995.

Bryan Locker was appointed Vice President, Commercial Communications, in July 1995.

Sylvain Bédard joined the Company in March 1996 as Vice President, Operations. André Massicotte subsequently resumed his former position as Senior Vice President responsible for government relations and development of the new business information system project.

Alan Barker, General Manager of the Customer Support business unit for the past four years, was appointed Vice President of the Communications Systems Division in May 1996.

After more than 35 years of distinguished service with the Company, Claude St.Arnaud, Senior Vice President, retired in June 1996. Mr. St.Arnaud's work was instrumental in securing success in international defence communications markets.

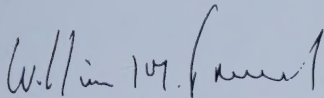
Reed Scowen was reappointed a director of the Company in November 1995. Brian Rowe, Chairman Emeritus of GE Aircraft Engines, General Electric Company, of Cincinnati, Ohio, was appointed a director in February 1996.

The Board acknowledges the extensive contributions made by three directors who will retire this year. A director since 1977, Thomas S. Dobson ably served on the Audit Committee and the Defence Security Committee, and as Chairman of both. Dr. Ian G. MacBean has provided expertise in technological matters since 1991, and served on the Compensation Committee. David C. Rickard has served on the Audit Committee since 1992, and on the Nominating and Corporate Governance Committee. Most notably, he has provided valuable counsel to the management of the Company.



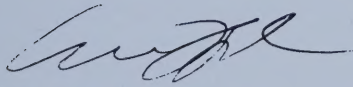
The outlook for fiscal 1997 is encouraging. The Company is continuing its substantial commitment to research and development, with expenditures concentrated on commercial product development.

In conclusion, the employees throughout Canadian Marconi Company and its subsidiaries are showing their diligence and determination to succeed by meeting the needs of CMC's customers.



William I. M. Turner, Jr.

Chairman



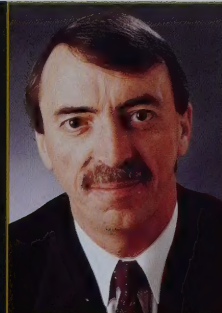
Carmen L. Lloyd

President and Chief Executive Officer

May 29, 1996



William I. M. Turner, Jr.  
Chairman



Carmen L. Lloyd  
President and Chief Executive Officer

# Canadian Marconi at a Glance

This year's annual report describes CMC's recent accomplishments in its traditional fields of activity as well as in new technologies and markets. Some of the highlights concern the strengthening of the Company's position in established market niches; others describe "cross-overs" from one of these sectors to another. CMC's successes are the result of its responsiveness to an ever increasing range of opportunities for sales of its existing products as well its new products that promise future sales growth.

## Aerospace

- Airborne satellite communications antennas
- Aircraft navigation systems and sensors
- Avionics and flight management systems
- Cabin and cockpit display systems
- Global Positioning Systems (GPS) for ground stations and software
- Human factors engineering
- Infrared systems, detectors and imaging cameras
- Systems integration

## Communications

- Antenna signal processors for the commercial wireless industry
- Canadian distribution and service of: electronic test equipment; marine and land communications systems; and industrial security systems
- Facsimile switching systems
- Multi-channel line-of-sight and electronic counter-countermeasures radios and ancillaries
- Range safety receivers
- Secure satellite communications radios
- Spacecraft transmitters and transponders
- Tactical communications sub-systems
- Tactical information distribution systems
- Tactical multiplexer switches and digital circuit switches
- Time division multiplexers (TDMs)



## Customer Support

Automated test equipment, ground support and condition monitoring systems

Classroom and computer-based training

Electrical, electronic, dimensional and physical properties instrument calibration

Integrated logistics support

Repair and overhaul

Spares and repair services

Technical publications

Turn-key maintenance facilities

## Electronic Components

Circuit packaging

Contract manufacturing

Display components and machined parts

Microelectronics

Power conversion and magnetics products

## Surface Transportation Electronics

Fleet management and automatic vehicle location systems

GPS navigation and geographic information systems

Multi-media multiplexing and switching systems for surveillance, monitoring and control

## Aerospace



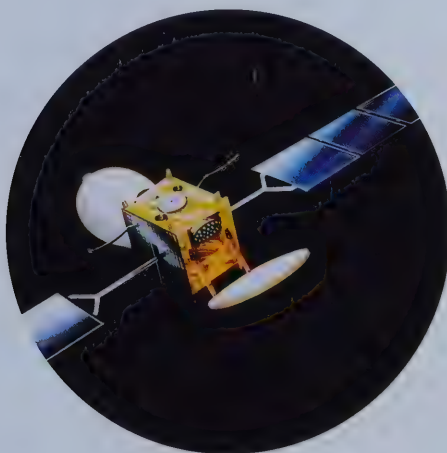
CMC's state-of-the-art Avionics Management System provides the central command and control functions to the pilot.



## Airborne Satellite Communications Antennas

Since its launch just over three years ago, CMC's **Satcom high-gain antenna** has been sold to more than 20 airlines, capturing well over 50 per cent. of the commercial air transport market. New sales were made to Singapore Airlines, Swissair and other operators of the Airbus A340, and CMC's first customers were signed up for installations on the new Boeing 777.

In the near future, a new intermediate-gain satellite constellation, called Inmarsat-3, will enable regional air carriers, business aircraft and the general aviation sector to access Satcom services over many areas of the world using a small, economical antenna. The Company's new **CMA-2200 antenna** addresses this market and has attracted wide interest.



Canadian Marconi is targeting the business and commuter aircraft market with its new satellite communications antenna, the CMA-2200, which will operate with the new Inmarsat-3 satellite constellation.

## Aircraft Navigation and Landing Systems

CMC's **airborne Global Positioning System (GPS) receiver** has secured more than 70 per cent. of the air transport market. This product is also marketed by Honeywell as the HG2021. Sales of the GPS receiver doubled during the year, with the addition of several new airline and business jet customers. During the fiscal year, CMC delivered its 1,000th production receiver to Honeywell. CMC's CMA-3012 GPS receiver is now factory certified on a wide variety of airframes, including the Boeing 777, 747, 737; Airbus A320 and A340.

CMC's GPS technology has been transplanted into products for the general aviation market. These products are manufactured by Northstar Technologies, located in Acton, Massachusetts. The impending certification of Northstar's **M3 GPS navigator** for instrument approaches will provide an opportunity for thousands of Northstar M1 Loran owners to upgrade the capabilities of their aircraft in the near term. CMC is consolidating its position as the leading GPS supplier to customers in Russia and the

Ukraine, with installation of GPS products produced by Northstar Technologies on several Antonov fixed-wing aircraft as well as a number of Mil Design Bureau helicopters. These activities are aimed at solidifying CMC's long-term position, as Russian and Ukrainian airframe manufacturers develop their export sales.

The Company's **CMA-900 flight management system (FMS)** was the world's first to receive air transport certification for GPS as a primary means of en-route navigation and non-precision approach. This fiscal year, Alaska Airlines inaugurated the system's operational service on its B737-200 fleet. This positions CMC's FMS in the large emerging market for GPS navigation systems and Omega replacements. The upcoming decommissioning of the world's Omega ground stations will drive this market into high gear in the next two years, and CMC's established leadership as a supplier of Omega navigation systems has provided it with a loyal airline customer base on which to build a solid foundation for FMS sales.

Differential GPS (DGPS) technology involves the use of fixed ground stations to enhance the positioning accuracy of GPS equipment. This year, CMC took a major step to apply its GPS technology beyond aircraft applications, to **GPS ground stations and software**. In cooperation with Honeywell, CMC will provide remote system monitoring units as part of the Honeywell/Pelorus Satellite Landing System (SLS-1000 and SLS-2000) DGPS ground stations. Airports equipped with these stations, which are a fraction of the cost of traditional instrument landing systems (ILS), will allow aircraft equipped with GPS receivers to use precision approaches. Major interest in DGPS is emerging, especially in developing countries where no precision landing infrastructure is currently in place. Initial airport installations and FAA certification will take place in mid-1996.

CMC's **SureFlight GPS software package** is another new GPS initiative. This program permits the analysis of the GPS constellation's performance and availability for any given aircraft route, enabling operators with GPS equipment to test the satellites' suitability to support GPS navigation. In this way, dispatchers can schedule their flights to take advantage of the availability of primary means GPS navigation.

The Company's **CMA-2012 Doppler velocity sensor** continues to make sales in new areas, with deliveries to customers in Canada, Turkey and South Africa. CMC has captured almost all of the contracts for new helicopter Dopplers world-wide.

In March 1996, CMC shipped the last of its **Commercial Microwave Landing System Avionics (CMLSA)** equipment to the U.S. Air Force. More than 1,100 systems were manufactured during the course of this contract, and the Company's efforts have been recognized in a citation from the USAF in appreciation of its excellent work.

## Aircraft Navigation, Control and Display Systems

Providing cockpit displays and navigation systems for military aircraft has been a traditional mainstay for Canadian Marconi, and continues to play an important role. As defence budgets shrink and new programs become a rarity, CMC's response to this market reality is to focus on the retrofit and upgrade of existing aircraft.



CMC has scored a number of successes with its airborne tactical navigation, control and display systems. The U.S. Navy selected CMC's **cockpit control system** for the MH-53E helicopter as well as CMC's **integrated electronic warfare mission processors** for the MH53-J. The Turkish military selected the Company's display systems and Doppler velocity sensors, as part of an integrated tactical navigation system employing other suppliers' equipment, for its Cobra helicopter fleet. A new contract for the Company's **avionics management system** was also received this fiscal year, for installations on the E-2C Hawkeye aircraft.

The Company reached several major program milestones related to the **CMA-2074 colour display generator**, used in the avionics suite of Britain's Merlin military helicopter. The first production contract was received for CMC's **interface shipset**, part of a navigation/communication system to be installed on over 200 aircraft in the U.S. Navy, Marine Corps and Coast Guard fleets.

The **Human Factors Engineering (HFE)** team had another very successful year, with continued work in support of the Canadian Department of National Defence (DND), including studies for the CP-140 Aurora, CH-146 Griffon, and the proposed Canadian Search and Rescue Helicopter. CMC provided HFE support to Lockheed Martin Electronic Systems Canada Inc. on the Spotlight Synthetic Aperture Radar Program, and secured its first contracts from customers in the U.S. and France.

## Missile Warning Systems

CMC subsidiary Cincinnati Electronics Corporation (CE) continues to be one of the world's leading producers of infrared missile warning systems. CE is upgrading systems in service and developing a new, smaller system for all types of aircraft. The **AN/AAR-44**, installed on U.S. Air Force and Belgian Air Force transport aircraft, continues to provide service in relief and supply missions around the world.

## Infrared Cameras

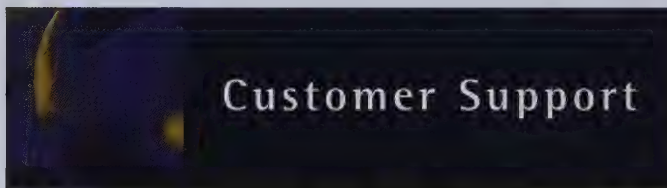
CE has also adapted its expertise in infrared components for missile homing devices to the commercial marketplace. Infrared cameras designed and manufactured by CE are being used to locate and assess various hazards such as oil spills; for search and rescue operations; and in a variety of industrial and medical applications.

A prototype compact **state-of-the-art imaging system** was delivered to the U.S. Army this year. This system allows soldiers to conduct long-range and high-resolution night operations, and offers much greater portability than any other system available in the Army's inventory.

## Space Electronics

The **T-704 transmitter**, developed by Cincinnati Electronics in 1995, was delivered for use on the EarlyBird and Clark Spacecraft programs. This transmitter is used to down-link digital imaging data to ground stations. A new transmitter, the **T-705**, was demonstrated with NASA's Tracking and Data Relay Satellite System, and proved its ability to down-link launch vehicle performance data in near real time during the launch of an Atlas vehicle.

CE continues to dominate the **range safety receiver** market, with its products flown on 24 space launches and several missile test flights in 1995. Used in emergency situations only, these systems are designed for the electronic transmission of "abort" commands to vehicles after launch.



### Repair and Overhaul

With the award of two major Canadian Department of National Defence programs in March 1996, CMC is positioning itself to offer an expanded range of contract repair services. The Company's repair and calibration facilities will be enlarged to handle the maintenance of communications and navigation systems, as well as airborne radar systems used on a number of Canadian Forces aircraft. Each of these programs runs for three years, with an optional two-year extension.

### Automated Test Equipment

CMC received follow-on orders from Harris Corporation for **test program sets** for the **Portable Adaptive Test System (PATS)** for the CF-18 avionics systems. CMC will provide long-term PATS support to the Canadian Air Force, in CMC's capacity as a Canadian Centre of Excellence for the current and future military PATS requirements.

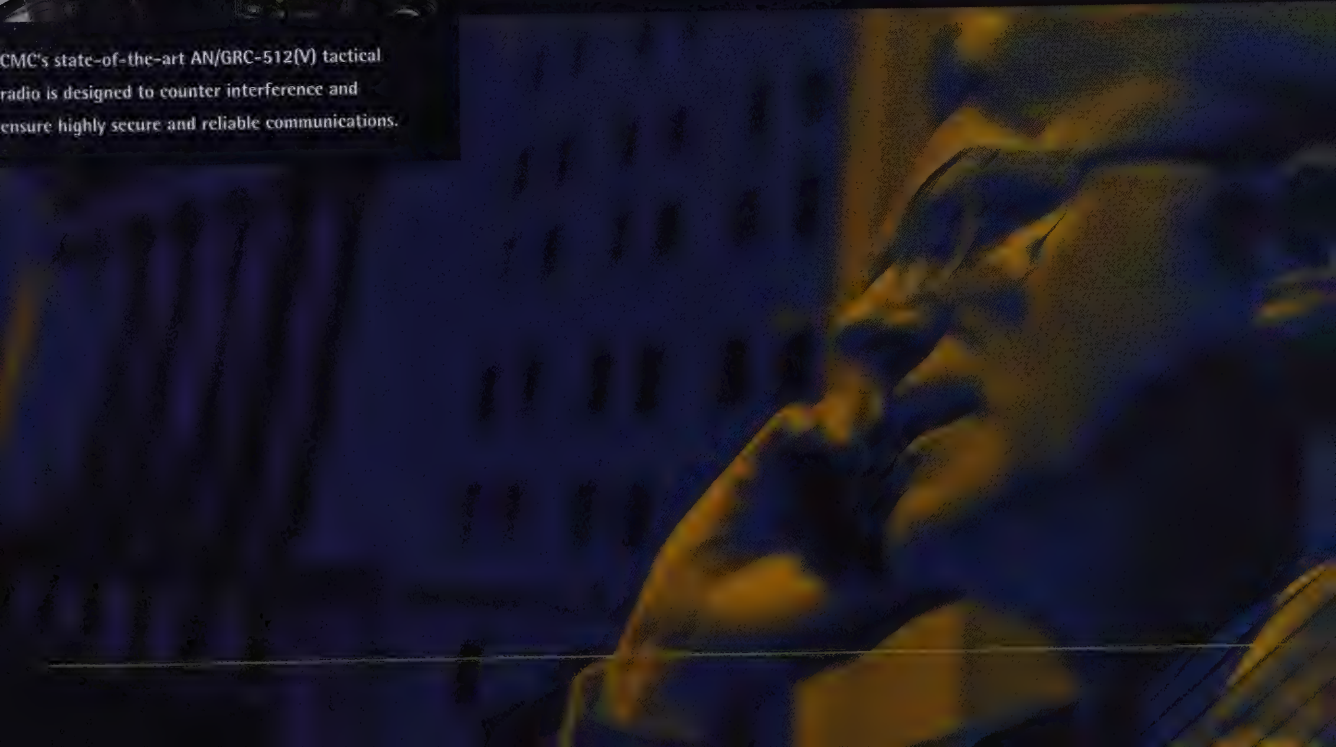
DND is out-sourcing a number of operations in order to reduce costs. CMC has joined the **CF-18 Contractor Life Cycle Support team** seeking to provide long-term, cost-effective automated test equipment (ATE) and avionics maintenance support.





CMC's state-of-the-art AN/GRC-512(V) tactical radio is designed to counter interference and ensure highly secure and reliable communications.

## Communications



## Commercial Communications

CMC is the world's leading supplier of **stand-alone enhanced facsimile switching systems** to the telecommunications industry, with a 34 per cent. market share and a customer base that includes 33 major telecommunications service providers in 26 countries. During fiscal 1996, CMC consolidated its leadership position with new contracts in India and several South American countries. A key component of CMC's success is the integration of real-time functionality into its standard enhanced facsimile switching systems, resulting in true "never busy" fax services. This has positioned CMC as the sole supplier to offer a combined "store and forward" and "real-time" fax system based on international standards. In keeping with its commitment to leadership in the facsimile service market, CMC continues to engage in significant R & D efforts designed to continually upgrade its product line.



In a highly competitive global environment, Canadian Marconi has achieved a leadership position based on supplying its enhanced facsimile switching systems to the telecommunications industry.

CMC has applied its military antenna technology to the development of a smart antenna system that optimizes reception by responding to the signal environment in which it operates. The **CMA-2052 antenna signal processor** improves performance of the base stations used for commercial cellular telephone networks. After a 30-day trial, CMC's first commercial contract for the supply of this product was received from the Korean Mobile Telecommunications Company, the largest cellular phone operator in Korea. Initial results are encouraging, with a reported 20 per cent. reduction in interference-related problems.

CMC began trials this fiscal year of a signal processor that reduces the self-generated interference problems experienced by frequency-hopping radios.



The Company is actively involved in the Canadian distribution and support of **re-sale marine electronics, land-based radio communications systems and electronic test equipment**. To better serve the marine and land electronics and communications market and expand its cross-Canada network of sales and service offices, CMC opened a new sales and service branch in Mississauga, Ontario, this fiscal year. CMC is Canada's largest distributor of Raytheon marine products, and supplies critical weather information systems equipment for helicopter traffic control at the Hibernia offshore oil development.

## Tactical Communications

CMC continues to dominate the Ultra High Frequency (UHF) tactical radio market with an installed base of over 25,000 radios world-wide. The Company has embarked on a program of improvements to the 7,500 **AN/GRC-226(V)** radios used in the U.S. Army's Mobile Subscriber Equipment program, to ensure that this radio will be an effective and essential communication asset well into the next century. Working with a major U.S. prime contractor for a customer in Asia, CMC has integrated the AN/GRC-226(V) with the Company's new **MTD-2004 switch** and **MTD-2016 switching multiplexer**, resulting in a small-area switched troposcatter communications system.

The **AN/GRC-512(V)**, CMC's most advanced tactical radio, is on its way to becoming a significant contributor to the Company's success. This radio established some formidable technical benchmarks in recent competitive international testing, sparking substantial interest among potential customers. An important milestone was achieved with the delivery of advanced communications systems to a customer in Asia, representing the AN/GRC-512(V)'s first large-scale fielding and establishing CMC's market leadership.

CMC delivered the first two **vehicle-mounted radio systems** for the Canadian Armed Forces' IRIS program, a major tactical communications initiative by DND.

The Company has delivered significant quantities of its **fibre-optic information distribution system** to several U.S. government agencies for deployment world-wide. This system is a flexible communications network, which allows many widely separated users to communicate with each other through voice, facsimile or computer, as well as to operate radios from a remote location.

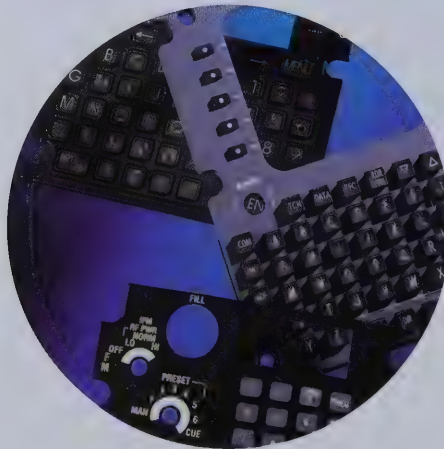
To satisfy the requirements of two separate customers, CMC has adapted land tactical communications equipment for use in shipboard and air defence roles – two new market areas for tactical UHF radios. The Company is also exploring innovative applications of its communications technology in areas previously not addressed by radio, including the very challenging area of propagation of information in tunnel environments for mass transportation providers and certain industries.

Cincinnati Electronics continues to enhance its **UHF Satcom support products**, and this fiscal year won a number of strategic awards which have established CE in the UHF satellite communications Demand Assigned Multiple Access (DAMA) market. CE's **RT-460 surrogate satellite** has provided the U.S. Department of Defense with a solution to the limited access of UHF satellite channels.

## Electronic Components

In fiscal 1996, CMC achieved significant growth with its **custom hybrid microcircuits**. The Company received major new contract awards from Harris Corporation for the AMMRAM missile, and from Hughes Radar for the F-18 and F-15 fighters. CMC is the largest hybrid microcircuit manufacturer in Canada for the defence and aerospace markets, and is developing new microelectronics processes in four areas: high-power switching hybrids, complex multi-chip modules, low-temperature co-fired ceramics, and "chip-on-board" technology. These process advances are being developed in partnership with CMC's customers.

This year, **Northrop Grumman** awarded CMC its **Key Plan Supplier Award** for the **power supply** used on the U.S. Navy BQM-74E target drone. The award recognizes CMC's having achieved the highest status level for a supplier to Northrop Grumman in terms of quality and overall delivery performance.



Canadian Marconi's custom electronic components are specified by major international aerospace firms and defence contractors around the world.

CMC became the U.S. Army's top supplier of retrofit **night-vision cockpit instrument panels** this fiscal year, and also secured major orders for its **display components** with ITT, GEC-Marconi and other customers. The emergence of "glass cockpits" requires the continued evolution of a strong display-based product line. CMC is in the process of developing a new line of "smart displays" based on various leading-edge display technologies. Development work has also begun on the integration of CMC's keyboards and electronic displays into a single package, and on first-minima twisted-nematic (FMTN) displays, the next-generation to today's dichroic glass LCD modules.



## Surface Transportation Electronics

Building on the success of the 941 family of **marine GPS navigators**, Northstar Technologies introduced the 951X and 951XD during the fiscal year. The 951 involved a re-design of the 941 to incorporate CMC's 12-channel ALLSTAR receiver, as well as the capability to display electronic charts on its liquid crystal display screen. The 951 was recognized as the year's "Best New Product" by the National Marine Electronics Association, and has secured a dominant share of the recreational and commercial marine market. For the second year in a row, this Association voted the 941 as the best fixed-mount marine GPS.

The **FreightLink fleet management system** integrates CMC's GPS technology with portable personal digital assistants and public communications networks to provide trucking companies and their customers with real-time access to essential data on their vehicles and cargos. Close collaboration between CMC and Groupe Robert Inc. (GRI) resulted this year in a contract to equip the carrier's Montreal-based LTL (Less than Truck Load) fleet. GRI is one of the largest and most progressive trucking companies in Canada, and plans to equip its entire fleet of over 600 trucks with the CMC system. GRI expects to increase its competitiveness through the use of this modern fleet management tool, since it provides economic benefits to shippers through the provision of vital data related to the delivery of their goods as well as to the carrier, through the availability of real-time and statistical data concerning the operation of their fleets. FreightLink is entering revenue operation with GRI during the second quarter of 1996, and other projects are being pursued with several North American carriers.

CMC's **ALLSTAR GPS sensor** is establishing itself as a leader in its price class, providing exceptional performance and accuracies down to a few centimeters. This has enabled CMC to address new applications in "precision agriculture", which help farmers to measure the effect of fertilizer, herbicide and pesticide application at each location on a field, and to adjust their crop treatments accordingly. This technology involves the same DGPS positioning techniques developed by CMC for airborne and marine applications, and a number of the Company's GPS sensors and differential beacon receivers have been integrated with crop yield monitoring systems. Both CMC and Northstar Technologies are building their reputations in this business, as well as in the construction and recreation markets.

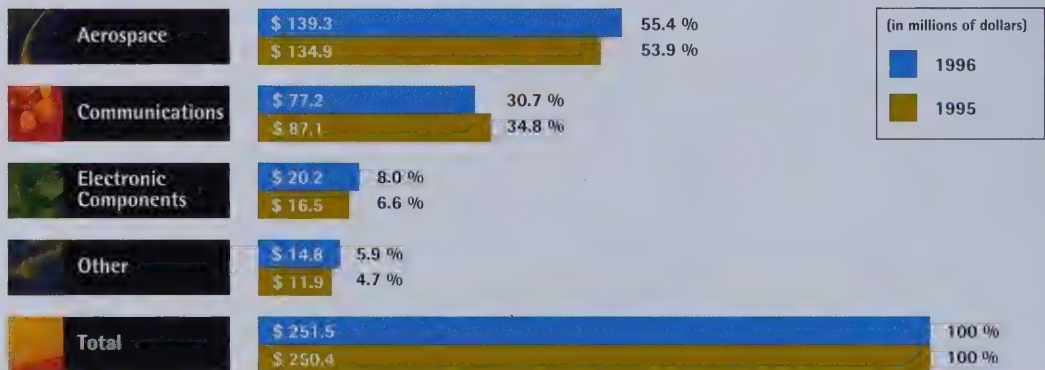
**Multi-media optical networks** are generating considerable interest in the security and surveillance markets. CMC's **new HI-ACCESS concept** provides cost-effective solutions for the digital multiplexing of multiple video signals, voice and data for surveillance, monitoring and control. A network can be custom-configured and interfaced with a wide range of equipment, including video cameras, control panels, computers, and telephone systems. Applications include highway surveillance and control, train and subway surveillance, and security installations for public utilities, ports and airports, banks, prisons, industrial plants and military installations. CMC is pursuing partnerships with organizations already active in these markets.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Consolidated net income for the current fiscal year was \$9.1 million or \$0.38 per share, compared with \$4.7 million or \$0.20 per share in the prior year. Pre-tax operating income increased to \$6.6 million in fiscal 1996 compared to a pre-tax operating loss of \$2.6 million in fiscal 1995. Revenue for the year ended March 31, 1996, was \$251 million, compared with \$250 million in the previous year, with commercial revenues compensating for a decline in military revenues.

The following discussion and analysis explains trends in the Company's operating results and financial condition for the year ended March 31, 1996. The purpose of this analysis is to help shareholders and other readers understand the factors underlying the financial performance of the Company, including, where possible, those which may impact future results. The Consolidated Financial Statements and Notes to the Consolidated Financial Statements should be read as an integral part of this review.

## Revenues



The Company operates in three primary markets: Aerospace, Communications and Electronic Components, with combined sales accounting for 94 per cent. of consolidated revenues in fiscal 1996, reduced from 95 per cent. in fiscal 1995. To compensate for declining military orders, the Company continued its efforts to increase commercial sales. In fiscal 1996, commercial revenues reached \$115 million, an increase of \$4 million or 4 per cent. over last year, representing 46 per cent. of consolidated revenues compared to 45 per cent. in fiscal 1995.

The Company is also addressing new markets, with export revenues (based on geographic location of end customers) reaching \$196 million in fiscal 1996, an increase of \$6 million or 3 per cent. from last year.

Order backlog has been reduced from \$206 million last year to \$180 million at March 31, 1996, due to the completion of various long-term production contracts and reflecting, in part, the move from military to commercial markets.



## Aerospace

The increase in Aerospace revenues is due primarily to the success of CMC's airborne GPS receiver, which has now captured over 70 per cent. of the air transport GPS market. The mature Omega product line also increased revenues over last year, as an aggressive pricing strategy was introduced to move existing inventory prior to the upcoming decommissioning of Omega ground stations. While Omega revenues are expected to decline next year, the Company is well positioned with its CMA-900 flight management system (FMS) as a replacement product. CMC's Satcom high-gain antenna continues to dominate its market, recording an increase in orders over last year. However, the shipment of these orders is subject to airlines' installation schedules and their need for just-in-time deliveries. In fiscal 1996, the number of installations was reduced and, as a result, Satcom sales declined slightly from last year's levels.

Military Aerospace revenues also increased in fiscal 1996. Funded development activity for the AN/AAR-44 Missile Warning Improvement program and higher infrared product sales compensated for reduced order intake of avionics cockpit displays and navigation systems, and the completion of commercial microwave landing system avionics (CMLSA) deliveries to the U.S. Air Force. Management believes that the retrofit and upgrade market should compensate for the declining procurement of new avionics equipment, while efforts are under way to exploit CMC's CMLSA technology as part of a new "multi-mode" receiver in the European market.

## Communications

Revenues from the Company's tactical communications products decreased from the prior year due to the continued reductions in defence spending, causing lengthy delays in initiating orders for several programs. These decreases were partially offset by increased sales of CMC's fibre-optic information distribution system to various U.S. government agencies.

The first export deliveries of the new AN/GRC-512(V) tactical radio were made, compensating for reduced sales levels of previous version radios and strategically establishing CMC's leadership in this advanced radio market. While radio orders for the AN/GRC-512(V) were delayed, the technical benchmarks established by this radio in recent international tests position it well for future procurements.

In commercial communications, facsimile switching revenues increased compared to last year, with new contracts in India and several South American countries contributing \$2.2 million to the increase in the Company's export revenues. In fiscal 1997, the Company's new antenna signal processor (ASP) will be marketed to this customer base of telecommunications service providers in 26 countries.

## Electronic Components

Revenues from Electronic Components increased by 22 per cent. compared to last year, due primarily to significant sales growth of custom hybrid microcircuits and liquid crystal display components to the military market. More than 80 per cent. of fiscal 1996 Electronic Components revenues are derived from military programs, virtually all of which come from export customers. In fiscal 1997, CMC's reputation as a quality, "on-time" supplier will be leveraged into the telecommunications and commercial avionics markets, which require similar standards of high reliability.

## Other

Revenues increased from the prior year following the successful introduction of Northstar's 951 marine GPS navigator. In other business areas, the Company has successfully expanded its Repair & Overhaul capabilities by winning two major Canadian DND programs in March 1996, while the application of GPS technology to surface transportation markets is expected to result in product launches next year.

## Operating Expenses

Manufacturing, selling and administration expenses were reduced by \$5 million or 2 per cent. to \$214 million in fiscal 1996. Regrettably, it was necessary to reduce employment levels by 163 or 10 per cent. compared to March 31, 1995, to achieve better efficiencies on existing sales volumes. Actions were also taken to reduce excess capacity, including the disposal of the Cornwall, Ontario, facility and the preparation of the Trenton Avenue property for sale. Non-recurring charges of \$5.7 million have been included in the accounts at March 31, 1996. In fiscal 1995, \$9.6 million of non-recurring charges were recorded, \$5.6 million for restructuring costs and \$4 million for the write-down of obsolete stock.

During the year, a satisfactory settlement was reached following the termination for convenience on March 31, 1995, of the MLS contracts held by Micronav International Inc. As a consequence, CMC and IMP Group began closing the operations of this jointly established subsidiary this year. The settlement proceeds, net of the disposal costs of the Micronav assets and the write-down of goodwill, are included in manufacturing, selling and administration expenses.

Depreciation and amortization decreased by \$1.1 million to \$12.1 million in fiscal 1996 due to a reduction in the level of capital expenditures and the disposal of the Cornwall facility.

Net R & D expenditures amounted to \$18.3 million or 7.3 per cent. of revenues in fiscal 1996 compared to \$20 million or 8 per cent. of revenues in fiscal 1995. The Company remains committed to a level of R & D investment necessary to support new product development strategies and to continue to enhance existing products.



## Other Income and Expenses

An unrealized foreign exchange loss of \$2.7 million was recorded against the Company's U.S. dollar short-term investments at March 31, 1996, due to a strengthening of the Canadian dollar from March 31, 1995. An unrealized exchange gain of \$1.1 million was recorded last year.

In fiscal 1996, interest income increased by \$2.9 million to \$13.1 million, as a result of higher cash balances and U.S. interest rates. The higher U.S. interest rates also resulted in an increase in interest expense on the Industrial Development Revenue Bonds held by Cincinnati Electronics Corporation.

The Company's investment policy requires it to limit investments to the highest grade of commercial paper or government securities, with a view to enhancing asset protection rather than income maximization. At March 31, 1996, the cash and short-term investments were \$114 million held in U.S. dollars and \$71 million held in Canadian dollars.

## Income Taxes

The overall effective income tax rate increased in fiscal 1996 to 44.9 per cent. from 43.3 per cent. last year, due primarily to the non-deductibility of a portion of the unrealized foreign exchange loss, and to a reduction in the level of tax incentives due to reduced R & D spending compared to last year.

As a result of income tax assessments applicable to the years 1989 to 1994, the balance of retained earnings at April 1, 1994 has been reduced by \$1.7 million, representing the cumulative amount by which income taxes as at that date had been increased.

## Net Income

Net income of \$9.1 million was recorded in fiscal 1996 compared with \$4.7 million last year, an increase of \$4.4 million or 94 per cent. The improvement is due primarily to a reduction in non-recurring charges, the realization of cost savings from prior restructurings, and improved margins through productivity improvements.

Despite these improvements, earnings remain below acceptable levels. The Company expects a further improvement next year from cost savings and productivity initiatives.

## General Risks and Uncertainties

CMC's consolidated sales and earnings are influenced by several external factors, the most significant of which are expenditures related to defence procurements, currency exchange rates and the resolution of contract performance criteria.

The Company, although increasing the proportion of its sales made to the commercial markets, remains a defence electronics equipment supplier. Program delays and cancellations are commonplace in this market as defence budgets continue to be

reduced. The Company will continue to pursue these opportunities, while increasing its investment in commercial products and improving efficiencies to increase profit margins.

In fiscal 1996, approximately 55 per cent. of the Company's sales originating from Canada were in U.S. dollars. The Company manages its foreign currency risk by negotiating foreign exchange protection clauses with its customers or by entering into forward foreign exchange contracts. The Company does not engage in a speculative hedging program. At March 31, 1996, the Company had forward sales contracts in the amount of U.S. \$30 million at an average exchange value of \$1.3785.

Contracting with governments and large commercial organizations requires the ability to manage complex technical, financial and administrative specifications. To mitigate this risk, project phase reviews are conducted by multidisciplinary teams starting from approval of the bid to completion of the program. Project performance is also monitored by the Company's senior management through regular program status reviews.

## Liquidity and Capital Resources

The Company had cash and short-term investment balances of \$226 million at March 31, 1996, compared to \$208 million at March 31, 1995. The increase is due primarily to improved operating results and better management control over inventory and receivable balances, both of which were reduced from last year's levels.

Fiscal 1996 capital asset expenditures of \$4.5 million, net of assistance, were made primarily on computers and test equipment to improve productivity and reduce cycle times. Fiscal 1995 additions included the acquisition of the Company's new facility in Ville Saint-Laurent. The Company expects that fiscal 1997 expenditures will increase compared to this year, as upgrades are planned to the Company's business information systems. Fixed asset balances were reduced from fiscal 1995 following the sale of the Cornwall facility and the closure of Micronav International Inc.

At March 31, 1996, the Company's only indebtedness was \$8 million of Industrial Development Revenue Bonds issued by Cincinnati Electronics Corporation and secured by an irrevocable letter of credit agreement. The letter of credit agreement restricts the incurrence of additional indebtedness and the payment of dividends by CE, and requires the maintenance of minimum tangible net worth with respect to CE.

The Company has an agreement with its banker for a committed credit facility totalling \$30 million. At March 31, 1996, none of this facility was utilized. The Company's cash and temporary investment balances, the line of credit, together with internally generated cash flow and other available sources of financing, are expected to be sufficient to meet the Company's cash requirements.

The Board of Directors determines the level of dividend payments based on the Company's operating profitability. The Company has incurred operating losses from fiscal 1995 up to and including the second quarter of fiscal 1996 and, as a result, the Board of Directors did not declare either a June 1995 or December 1995 dividend payment. The Board of Directors has approved a June 1996 dividend payment of \$0.07 per share in respect of the year ended March 31, 1996.



## Employee Relations

Labour contracts cover approximately 55 per cent. of CMC's Canadian employees, the majority being employed at the Company's Ville Saint-Laurent facility. The five-year contract with the association representing engineers and scientists located in Quebec, will expire in September 1999. The Company and union representatives have begun discussions to renegotiate the contracts of both hourly and salaried employees whose three-year contracts will expire during fiscal 1997.

## Environment, Health and Safety

The Company adopted an Environmental Protection Policy in February 1993 which involves a Company-wide environmental protection program. The Company maintains a recycling program for paper products and hazardous materials.

Environmental tests have been performed on the vacant Trenton Avenue property and adjacent parking lot which have indicated that the land is suitable for residential development. Hazardous materials, which were commonly used at the time of construction of the building, were removed in fiscal 1996 in accordance with provincial and municipal regulations.

No Rec.

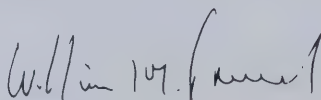
## Consolidated Balance Sheet

March 31

(in thousands)

	1996	1995
<b>Assets</b>		(restated - Note 2)
Current assets		
Cash and short-term investments, at cost, including accrued interest	\$ 225,838	\$ 208,076
Accounts receivable	63,850	67,426
Income taxes refundable	8,778	5,735
Inventories (Note 3)	48,416	49,459
Prepaid expenses	591	718
Deferred income taxes	4,382	9,164
	351,855	340,578
Fixed assets (Note 4)	60,027	71,386
Goodwill, at cost, less accumulated amortization of \$4,802,000 (1995 - \$4,165,000)	19,392	23,314
	\$ 431,274	\$ 435,278
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 67,094	\$ 70,310
Income taxes payable	3,359	10,229
	70,453	80,539
Deferred income taxes	2,425	3,497
Long-term debt (Note 5)	8,047	8,107
Shareholders' equity:		
Stated capital -		
Authorized capital - unlimited		
23,938,468 (1995 - 23,938,468)		
common shares issued (Note 8)	11,924	11,924
Retained earnings	331,447	322,347
Cumulative translation adjustment (Note 9)	6,978	8,864
	350,349	343,135
	\$ 431,274	\$ 435,278

APPROVED BY THE BOARD:



William I. M. Turner, Jr.  
Director



Carmen L. Lloyd  
Director

## Consolidated Statement of Income

Year ended March 31

(in thousands)	1996	1995
Revenues (Note 10)	\$ 251,489	\$ 250,353
Operating expenses		
Manufacturing, selling and administration	214,452	219,654
Research and development, net of government participation of \$7,646,000 (1995 - \$6,978,000)	18,290	20,031
Depreciation and amortization	12,141	13,267
	244,883	252,952
Operating income (loss)	6,606	(2,599)
Foreign exchange (loss) gain on short-term investments	(2,685)	1,148
Interest		
Interest income on short-term investments	13,113	10,175
Interest expense on long-term debt	(519)	(448)
Income before income taxes	16,515	8,276
Provision for income taxes (Note 11)	7,415	3,581
Net income	\$ 9,100	\$ 4,695
Net income per common share (in dollars)	\$ 0.38	\$ 0.20

## Consolidated Statement of Retained Earnings

Year ended March 31

(in thousands)	1996	1995
Retained earnings, beginning of year as restated (Note 2)	\$ 322,347	\$ 322,705
Net income	9,100	4,695
	331,447	327,400
Dividends - (1995 - 21 cents per common share)	-	5,053
Retained earnings, end of year	\$ 331,447	\$ 322,347



## Consolidated Statement of Changes in Financial Position

Year ended March 31

(in thousands)	1996	1995
Cash provided by (used in)		
Operating activities		
Net income	\$ 9,100	\$ 4,695
Depreciation and amortization	12,141	13,267
Goodwill write-down (Note 7)	2,137	-
Deferred income taxes	(993)	13
Loss (gain) on sale of fixed assets	3,009	(84)
Net change in non-cash working capital balances	(3,519)	(9,507)
	21,875	8,384
Investment activities		
Purchase of certain assets of NetExpress, Inc. (Note 6)	-	(7,600)
Additions to fixed assets, net of government assistance (Note 4)	(4,520)	(15,427)
Proceeds from sale of fixed assets	1,582	294
	(2,938)	(22,733)
Financing activities		
Dividends	-	(5,053)
Issuance of common shares	-	276
	-	(4,777)
Effect of fluctuations of exchange rates on cash and short-term investments	(1,175)	516
Total cash provided (used) during the year	17,762	(18,610)
Cash and short-term investments, beginning of year	208,076	226,686
Cash and short-term investments, end of year	\$ 225,838	\$ 208,076

## Notes to Consolidated Financial Statements

(all tabular amounts are in thousands of dollars)

### 1. Summary of significant accounting policies

#### (a) Principles of consolidation

The consolidated financial statements include the financial statements of Canadian Marconi Company and those of companies it controls, all of which are majority owned, together with the Company's 50% share of assets, liabilities, revenues and expenses of the corporate joint venture in which it participates.

#### (b) Inventories

Raw materials and bought-out components, work in process, and finished products are valued at the lower of cost and estimated net realizable value. The cost is determined using the first-in, first-out method for raw materials and bought-out components. The cost of work in process and finished products includes the cost of raw materials, direct labour and associated overhead. Deductions are made for progress payments received and any losses incurred on contracts not completed at the balance sheet date.

#### (c) Fixed assets and depreciation

Fixed assets retired or disposed of are eliminated from the asset and accumulated depreciation accounts. Gains and losses from disposals are included in income. Depreciation is provided on the straight-line method at rates based on the estimated useful lives of depreciable assets.

#### (d) Income taxes

The Company provides for income taxes based on income included in the financial statements regardless of when such income is subject to payment of taxes under the tax laws. Investment tax credits relating to scientific research and experimental development have been accounted for using the cost reduction method, whereby the expenditure is reduced by the credits.

#### (e) Recognition of revenue

Sales are normally recognized when products are delivered to customers; however, revenue from major long-term contracts is recorded on the percentage of completion method based on the ratio of the incurred costs to date to the projected total cost of completing the contracts. There were no contracts accounted for as major long-term contracts in 1996 and 1995.

#### (f) Goodwill

Goodwill represents the excess of the purchase price of acquired companies and businesses over the value assigned to the identifiable assets acquired and is being amortized on a straight-line basis over a period of ten to twenty-five years.

#### (g) Translation of foreign currencies

For Canadian operations, assets and liabilities in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Amounts entering into results of operations are translated at rates in effect at the date of the transaction. Exchange gains and losses are included in income.

For self-sustaining U.S. operations, assets and liabilities are translated at exchange rates in effect at the balance sheet date. The resulting gains or losses are accumulated in the cumulative translation adjustment component of shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing during the period.

#### (h) Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted in 1996.

### 2. Prior period adjustment

As a result of income tax reassessments applicable to the years 1989 to 1994, the balance of retained earnings at April 1, 1994, has been reduced by \$1,700,000, representing the cumulative amount by which income taxes as at that date had been increased.

### 3. Inventories

	1996	1995
Raw materials and bought-out components	\$ 7,610	\$ 8,996
Work in process	41,768	51,710
Finished products	5,984	11,330
	55,362	72,036
Progress payments	(6,946)	(22,577)
	\$ 48,416	\$ 49,459

### 4. Fixed assets

	1996			1995		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	\$ 9,043	\$ -	\$ 9,043	\$ 9,337	\$ -	\$ 9,337
Buildings	57,790	20,818	36,972	63,505	21,310	42,195
Plant, machinery and equipment	124,540	110,762	13,778	134,745	115,060	19,685
Equipment on rental	1,334	1,100	234	1,868	1,699	169
	\$ 192,707	\$ 132,680	\$ 60,027	\$ 209,455	\$ 138,069	\$ 71,386

The estimated useful lives of depreciable assets are as follows:

Buildings	25 to 40 years
Plant, machinery and equipment	up to 10 years
Equipment on rental	up to 4 years

Capital expenditures authorized and committed at March 31, 1996 were \$1,019,000.

Direct government assistance applied to fixed asset additions in the fiscal year amounted to \$900,000 (1995 - Nil).

### 5. Long-term debt

	1996	1995
Variable interest rate (rate varies with U.S. prime)		
Industrial Development Revenue Bonds, due September 1, 2015 - U.S. \$5,903,000 (1995 - U.S. \$5,795,000)	\$ 8,047	\$ 8,107

The Industrial Development Revenue Bonds issued by Cincinnati Electronics Corporation are secured by an irrevocable letter of credit agreement which includes restrictions on that subsidiary relating to the maintenance of minimum net worth, payment of dividends and incurrence of additional indebtedness.

### 6. Purchase of certain assets of NetExpress, Inc.

On October 21, 1994, the Company acquired, for cash, certain of the assets of NetExpress, Inc. and assumed certain of the liabilities. The acquisition has been accounted for by the purchase method. This business designs, manufactures and sells facsimile switching equipment to the commercial markets.

The allocation of the purchase price was as follows:

Net liabilities assumed	\$ (3,425)
Fixed assets	443
Goodwill	10,582
Purchase price	\$ 7,600

### 7. Joint venture financial information

The financial statements include the proportionate share of the assets, liabilities, revenues and expenses of Micronav International Inc. as follows:

	1996	1995
Assets	\$ 3,053	\$ 5,074
Liabilities	\$ 986	\$ 3,657
Revenues	\$ 373	\$ 5,307
Net income	\$ 649	\$ 331

On March 31, 1995, the Microwave Landing System (MLS) contracts held by Micronav International Inc. were terminated for convenience by the customer. During the year, a satisfactory termination settlement was reached with the customer and, as a consequence, the Company is in the process of closing down the Micronav operations. The settlement proceeds, net of related expenses and the write-down of goodwill, are included as a reduction of operating expenses.

### 8. Share option plan

The Company maintains a share option plan for officers and selected senior managers of the Company. Common shares aggregating 750,000 had been authorized and reserved for the plan of which none have been issued during the year (1995 - 26,804). At March 31, 1996, a total of 165,700 shares have been issued leaving a balance of 584,300 shares. Participants in the plan are granted options to purchase common shares in the Company at the market value of the date prior to the grant. These options are exercisable after three years and they expire seven years from the date of the grant.

Outstanding options granted to participants in the plan are as follows:

Granted in fiscal year	Price per common share	Outstanding at March 31, 1996
1990	\$ 14.6875	22,500
1990	\$ 11.75	19,800
1991	\$ 9.625	8,300
1992	\$ 14.25	65,800
1993	\$ 14.25	61,800
1994	\$ 14.88	54,000
1996	\$ 13.25	50,000
		282,200



## 9. Cumulative translation adjustment

	1996	1995
Balance at beginning of year	\$ 8,864	\$ 8,053
Effect of changes in exchange rates during the year on the net investment in U.S. self-sustaining subsidiaries	(1,886)	811
Balance at end of year	\$ 6,978	\$ 8,864

## 10. Segmented information

The Company is engaged in substantially one class of business: the design, manufacture and sale of electronic products. Included in total revenues of Canada are export sales in the fiscal year amounting to \$122,319,000 (1995 - \$117,180,000). The point of origin (the location of the selling organization) of revenues and the location of assets determine the geographic location, as follows:

	CANADA		UNITED STATES		CONSOLIDATED	
	1996	1995	1996	1995	1996	1995
Revenues from electronic products	\$ 177,571	\$ 177,393	\$ 73,918	\$ 72,960	\$ 251,489	\$ 250,353
Income before income taxes	\$ 12,640	\$ 4,649	\$ 3,875	\$ 3,627	\$ 16,515	\$ 8,276
Identifiable assets at March 31	\$ 309,341	\$ 317,506	\$ 121,933	\$ 117,772	\$ 431,274	\$ 435,278

## 11. Provision for income taxes

	1996	1995
Provision for income taxes based on a Canadian income tax rate of 39.49% (1995 - 39.32%)	\$ 6,521	\$ 3,254
Increase (decrease) in taxes resulting from:		
Research and development tax incentives	(132)	(304)
Non-deductible (non-taxable) portion on loss (gain) on exchange	303	(126)
Income tax rate differential on earnings of U.S. subsidiaries	397	357
Goodwill amortization not deductible	325	416
Other items - net	1	(16)
	\$ 7,415	\$ 3,581

## 12. Related party transactions

The General Electric Company, p.l.c. (GEC) of London, England, indirectly owns 51.3 per cent. of the outstanding common shares of the Company. During the fiscal year, the Company's sales to GEC and its subsidiaries amounted to \$2,674,000 (1995 - \$3,102,000). The Company purchased goods and services from GEC and its subsidiaries amounting to \$5,029,000 (1995 - \$7,380,000). At March 31, 1996, the Company had accounts receivable and accounts payable with these associated companies amounting to \$326,000 (1995 - \$743,000) and \$3,109,000 (1995 - \$1,643,000) respectively. Terms for these transactions were essentially the same as those with unrelated parties.

## 13. Pension plans

The Company maintains a number of pension plans to provide retirement income to its employees. The benefits provided to retiring employees under the plans are determined by calculations which include both defined benefit and defined contribution schemes. Based on actuarial evaluations of the defined benefit portion of these pension plans, at March 31, 1996, the present value of the accrued pension benefits is \$59,075,000 (1995 - \$58,496,000) and the pension fund assets are valued at \$65,574,000 (1995 - \$64,391,000).

## 14. Contingencies

Sales of the Company's products are subject primarily to the provisions of contracts with governments and commercial organizations. The administration of these contracts is often the subject of litigation, technical disputes and sophisticated arguments involving government and commercial contract laws. Management believes that adequate provision has been made in the consolidated financial statements for these disputes and other normal uncertainties in connection with its business.

In 1989, the U.S. Government terminated a contract with Cincinnati Electronics Corporation, a subsidiary, to design and produce an airborne radio for an alleged failure to complete the contract according to the specifications and within the time allotted. Under the termination, the U.S. Government has sought repayment of progress payments and reimbursement for certain costs and damages, the total of which cannot be ascertained at this time. An eventual gain or loss would be credited or charged to earnings in the period in which the amount is determined. It is the opinion of management, based upon the available facts and advice from legal counsel, that this termination is unjustified, and the Company is vigorously asserting its contractual rights and counterclaims in the U.S. Claims Court.

## Auditors' Report

To the Shareholders of  
Canadian Marconi Company

We have audited the consolidated balance sheets of Canadian Marconi Company as at March 31, 1996 and 1995 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Chartered Accountants

Montreal, Quebec

May 3, 1996



## Corporate Information

### Directors

#### Malcolm R. Bates

Deputy Managing Director, The General Electric Company, p.l.c.  
London, England

#### Thomas S. Dobson (r)

Chairman, Easton United Holdings Limited,  
Calgary, Alberta, Canada

#### \*\* Peter O. Gershon

Managing Director, GEC-Marconi Limited, Stanmore, England

#### \*\*\* Stephen A. Jarislowsky, O.C.

Chairman, Jarislowsky, Fraser & Company Ltd.,  
Montreal, Quebec, Canada

#### \*\* John R. Killick

Corporate Director, Ottawa, Ontario, Canada

#### Carmen L. Lloyd

President and Chief Executive Officer, Canadian Marconi Company,  
Ville Saint-Laurent, Quebec, Canada

#### Dr. Ian G. MacBean, C.B.E. (r)

Joint Chairman, GEC-Marconi Limited, Stanmore, England

#### David C. Rickard (r)

Vice President, Finance, GEC Inc., Greensboro, North Carolina, U.S.A.

#### Brian H. Rowe

Chairman Emeritus, GE Aircraft Engines, General Electric Company,  
Cincinnati, Ohio, U.S.A.

#### \*\* Reed Scowen

President, Reedsco, Inc., Montreal, Quebec, Canada

#### \*\*\* The Hon. Ian D. Sinclair, O.C., Q.C.

Corporate Director, Toronto, Ontario, Canada

#### \*\* William I. Mackenzie Turner, Jr., C.M.

Chairman and Chief Executive Officer, Exsultate Inc.,  
Montreal, Quebec, Canada

#### \* Member Audit Committee

#### \*\* Chairman Audit Committee

#### ◆ Member Defence Security Committee

#### ◆◆ Chairman Defence Security Committee

#### ◆ Member Compensation Committee

#### ◆◆ Chairman Compensation Committee

#### ◆ Member Nominating and Corporate Governance Committee

#### ◆◆ Chairman Nominating and Corporate Governance Committee

(r) Retiring at the August Annual General Meeting

### Executive Offices

600 Dr. Frederik Philips Boulevard, Ville Saint-Laurent,  
Quebec, Canada H4M 2S9  
Tel. (514) 748-3148 Fax. (514) 748-3100

### Registered Offices

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Tel. (613) 592-6500 Fax. (613) 592-7427

### Internet Web Site

<http://www.mtl.marconi.ca>

### Subsidiaries

#### CINCINNATI ELECTRONICS CORPORATION

7500 Innovation Way, Mason, Ohio, U.S.A. 45040-9699

Tel. (513) 573-6100 Fax. (513) 573-6290

Internet Web site: <http://www.cinele.com>

Dr. James T. Wimmers, Chairman,  
President and Chief Executive Officer

#### NORTHSTAR TECHNOLOGIES,

#### A DIVISION OF CMC ELECTRONICS, INC.

30 Sudbury Road, Acton, Massachusetts, U.S.A. 01720

Tel. (508) 897-6600 Fax (508) 897-7241

Scott Lewis, General Manager

#### CMC DATACOMM, INC.

Suite 300, 1861 Wiehle Avenue, Reston, Virginia, U.S.A. 22090

Tel. (703) 736-3300 Fax. (703) 736-3400

Bryan Locker, Vice President

### Officers

#### Alan F. Barker

Vice President, Communications Systems, Ville Saint-Laurent, Quebec, Canada

#### Sylvain Bédard

Vice President, Operations, Ville Saint-Laurent, Quebec, Canada

#### Carmen L. Lloyd

President and Chief Executive Officer, Ville Saint-Laurent, Quebec, Canada

#### Bryan Locker

Vice President, Commercial Communications, Kanata, Ontario, Canada

#### André Massicotte

Senior Vice President, Kanata, Ontario, Canada

#### Marcia McKenzie

Secretary-Treasurer, Ville Saint-Laurent, Quebec, Canada

#### Sol Rauch

Vice President, Aerospace, Kanata, Ontario, Canada

#### William I. Mackenzie Turner, Jr., C.M.

Chairman, Canadian Marconi Company, Ville Saint-Laurent, Quebec, Canada

#### Gregory A. Yeldon

Vice President and Chief Financial Officer, Ville Saint-Laurent, Quebec, Canada

### Stock Exchanges (CMW)

The Toronto Stock Exchange

The Montreal Exchange

American Stock Exchange

### Transfer Agent & Registrar

#### MONTREAL TRUST COMPANY

1800 McGill College Avenue, Montreal, Quebec, Canada H3A 3K9

Tel. (514) 982-7000

### Auditors

#### PRICE WATERHOUSE

1250 René-Lévesque Boulevard West, Suite 3500,  
Montreal, Quebec, Canada H3B 2G4

### U.S. Cash Dividend Plan

Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with Montreal Trust Company.



